

# Административно управленческие проблемы налоговых реформ

## Administrative and managerial issues of tax reforms

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### TAXATION IN REFORMS OF PUBLIC FINANCE MANAGEMENT

**ABSTRACT.** Generally, standard theoretical approaches to reforming national economy are quite usable for goals of managing changes of taxation systems and their components. In particular, of most problematic issue for tax administration is all-round provision of implementing principles of horizontal justice, as well as introducing the approaches which allow the execution of commitments on making payments by taxpayers to be more profitable than evasion. In many developing countries, due to political reasons the government's inability to implement their declared programs is frequently the main obstacle to improving the socio-economic progress. Implementation of many reform initiatives is not always successful due to absence of clear strategies in governmental policy of structural transformations. There are wide known models of applying new approaches in systems of public finance management (PFM), particularly, in regard of formation and dynamics of revenues, expenses, debts. The standard analysis of tax systems ignores, as a rule, the efficiency of tax administration connected with transaction costs and shadow economy influence: the issue is about the expenses, on one hand, for payers of obligatory payments and levies, and on the other hand, for taxation authorities, as well as about the other taxation components, non-subject to quantitative assessment, including motivation of breaching legislation. Of great significance is tax behavior, prevention of opportunism, regulation of not only tax rates and taxation basis but also of ways of public information accessibility, application of systemic toolkits of tax collection. While developing detailed plans of reforming, it is necessary to strain after maximum efficiency of continuous cycles of financial resource movements in terms of revenues and expenditures, as well as to consider challenges for interruption of the budget processes. At that, one of the main issue is, obviously, selection of targets and priorities. There are known cases, when the donor community and international organizations insist on "the best practices" introduction, especially if the reforming is carried out with their financial support. In justice to numerous positive examples, it should be borne in mind that each taxation system of every country is characterized by their specific traits, so the efficiency of its reforming will at large depend on considering local features. On the whole, the task of managing changes in the public finance systems is getting more complicated in the context of external and internal factors of uncertainty. Thus, in any circumstances it is vital to ensure continuity of the budget process, as well as execution by the state of its constitutional obligations. The regulatory potential of economy should be focused on implementing sustainable economic development goals. Accordingly, in the taxation system framework, as a strategic tool for governmental regulation, there must function efficient mechanisms of taxes and levies, as well as benefits and preferences in coordination with expenditure items, transfers and subsidies.

**KEY WORDS.** Public finance management (PFM); tax administration; reforming; decision-making process; change agents; fiscal burden; management mechanisms; structure of organization; tax behaviour; economic crises; function. Taxpayers; institutions.

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## **НАЛОГООБЛОЖЕНИЕ В РЕФОРМАХ УПРАВЛЕНИЯ ГОСУДАРСТВЕННЫМИ ФИНАНСАМИ**

**АННОТАЦИЯ.** Общепринятые теоретические подходы к реформированию государственной экономики, как правило, вполне пригодны для целей управления изменениями налоговых систем и их составляющих. В частности, в налоговом администрировании особенно проблемным представляется всемерное обеспечение реализации принципов горизонтальной справедливости, а также внедрение подходов, при которых для налогоплательщиков выполнение обязательств по внесению платежей становится более выгодным, чем уклонение от их уплаты. Во многих развивающихся странах неспособность правительства в связи с политическими причинами реализовать задекларированные программы часто является основным препятствием социально-экономического развития. Имплементация многих инициатив по реформированию не всегда успешна из-за отсутствия четких стратегий в государственной политике структурных изменений. Широко известны модели применения новых подходов в системах управления государственными финансами, в частности, при формировании и движении доходов, расходов и долгов. При стандартном анализе налоговых систем часто игнорируется результативность налогового администрирования, связанная с транзакционными издержками и влиянием теневой экономики: речь идет о затратах налогоплательщиков обязательных платежей и сборов и налоговых органов, а также об иных, не подлежащих количественной оценке составляющих налогообложения, включая мотивацию нарушений законодательства. Большое значение имеет налоговое поведение, предотвращение оппортунизма, регулирование способов публичного раскрытия информации, применение системных инструментов взимания налогов. При разработке детальных планов реформирования необходимо стремиться к максимальной эффективности непрерывных циклов движения финансовых ресурсов в доходах и расходах, а также учитывать угрозы нарушения бюджетных процессов, при этом одним из главных должен быть вопрос выбора целей и приоритетов. Известны случаи, когда донорское сообщество и международные организации настаивали на необходимости внедрения определенных образцов «лучшей практики», особенно если реформирование осуществлялось при их финансовой поддержке. Отдавая должное многим позитивным примерам, следует иметь в виду, что для налоговой системы каждой страны характерны специфические черты, поэтому эффективность ее реформирования во многом будет зависеть от учета местных особенностей. В целом задача управления изменениями в системах государственных финансов усложняется внешними и внутренними факторами неопределенности, поэтому при любых обстоятельствах необходимо обеспечивать непрерывность бюджетного процесса и исполнение государством своих конституционных обязательств. Регуляторная функция экономики должна быть направлена на реализацию целей устойчивого экономического развития, соответственно, в рамках налоговой системы, как стратегического элемента госрегулирования, должны работать эффективные механизмы налогов, сборов, а также льгот и преференций во взаимосвязи с расходными статьями, трансфертами и субсидиями.

**КЛЮЧЕВЫЕ СЛОВА.** управление государственными финансами, налоговое администрирование, реформирование, процесс принятия решений, налоговое бремя, механизмы управления, структура организации, налоговое поведение, экономический кризис, функция, налогоплательщики, институты.

### **Introduction**

Public finances management is essentially connected with mechanisms of the resource administration, and the consequences for the economy and society are correspondingly allocated. Thus, the system of PFM includes a large number of activities, systems and institutions. For example, the budget process consists of phases, which are divided into key components – strategic budgeting, preparing budgets, hearings, etc. Several fiscal cycles usually operate simultaneously. The external audit operations and reporting of costs are accompanied by the process of resource management in the current year. At the same time, strategic budgeting for the next year begins. Therefore, PFM consists of passages that overlap to form a complex system.

Besides, social contributions providing separate sources of funding for medical, social insurance and pensions, should be considered as an integral part of the tax burden assessment. Thus, favourable environment for economic development and investment into the national economy should be created, avoiding the use of taxes, individual tax regimes or tax administration methods that create barriers to economic infrastructure development investments and national production growth. Tax policy must be shaped as an integral part of the overarching state economic policy, whilst its role in improving economic efficiency should be investigated in close connection with qualitative assessment of specific fiscal tools in the context of the finance and credit replenishment mechanisms together with sufficient individual element performance. The mission of society's development is outside the fiscal framework but it completely determines its functional orientation, gives rise to objectives that mutually form a specific objective «tree» that specify the mission and is closely related to the objects of public economic regulation. Obviously, these goals tend to be more circumstantiated, with refined specific approaches to performing the assigned tasks, in particular, by improving the fiscal and monetary policies, stimulating innovations, which

is impossible without creating beneficiary conditions for capital accumulation, balancing market conditions, and stabilization of the monetary circulation. Thus, taxation should promote: structural balance of economic development; stabilization and further growth of production; improving financial condition of economic systems; social protection of the population; rational use of natural resources and creation of favourable environmental conditions for the population. The most important principles in shaping tax administration policy are equity, effectiveness, simplicity, income raising, and transparency. One of the main goals of tax system is mitigation of crisis consequences. The tax system is a tool of fiscal policy, including expansionary and contractionary ones. Transparency should be treated as a vital feature of developing economic reality-oriented approach. Thus, the tax system has to play crucial role in suppressing corruption and diminishing the shadow economy. The initial point of equity principle to be introduced during the reform process is: «everybody a must pay taxes according to current legislation and tax code».

There is a broad variety of theories explaining and predicting the tax policy outcomes in connection with behavior of corporations and individuals. Prominent British economist J. M. Keynes [1] suggested that government has to increase expenditures or reduce taxes to help an underemployed or depressed economy. It is true, even if higher deficit results are anticipated. Keynes theory started to lose popularity during the 1970 s when inflation and stagnation came along hand in hand and reasserted the importance of monetary policy. However, Keynesian policy common principles or separate components are being applied comprehensively until now. Moreover, in certain times, public authorities invoked the application of «stimulus» to prove they were working hard on tax cuts and expenditure increases to get a sufficient feedback of the country economy for further development. A traditional tax reform stresses horizontal equity and

efficiency is stressed mostly by trying to remove provisions that favor particular forms of income or consumption. A traditional tax reform is neither a strictly liberal nor conservative notion, and it has a long lineage of distinguished economic promoters, ranging from R. Musgrave [2] (Harvard University), to Henry C. Simons [3] (University of Chicago). Supply-side theory supports tax cuts and, as with the Keynesians, the level of support sometimes seemed indifferent to the state of the economy, the size of the deficit, or the level of the current tax rates. The focus of the theory is on lowering marginal tax rates to create additional incentives for savings and employment. The capital formation reformers pay special attention to lowering the tax rates on capital income efforts, but they are much less concerned with the rates on labor. Mostly, substantiation exploited by mentioned theory followers defines that growth should be a positive beacon and financial capital formation is a valid component for achieving it. Eventually, grounded on taxation issues there are scrutinized investigations on «pro-family» and «market-based» reforms of social policy. One group of reformers is called Progressives (related to Just society formation as a consequence of equity principals). They promote higher taxes at the top of the income distribution, and at the bottom they propose tax cuts or refunds. W. Vickrey [4] (Nobel Prize 1996) addresses the balance between equity and efficiency in designed income system. It is shaped in the form of optimal income tax problem. J. Mirrlees's [5] (Nobel Prize, 1996) model assumed that the government objective is to maximize the sum of all individuals' utility. Individuals maximize their utility on the set of «consumption-leisure». Nobel laureates (2011) Thomas J. Sargent and Christopher A. Sims have developed empirical methods that can answer the following questions: «How effective can monetary policy be in stabilizing unwanted fluctuations in macroeconomic aggregates? How effective has it been historically?»<sup>1</sup>. They developed the method and its successful application

to the interaction between monetary and fiscal policy and economic activity. One of the theories is developed by A. Laffer [6]. He suggests that an abnormal high rate of taxation disrupts business and work incentives. Laffer's theory is basic for Reaganomics.

A significant substantiation for any tax reform incentive is that even considerably small states with low population could benefit enormously from implementing the appropriate policies. The impetus of central and local authority policies towards related governmental performance and economic overall growth could not be overestimated. Whilst progressive tax schemes in modern interpretation are mostly focused on supporting benefits of selected constituencies either than on shaping a socio-economic establishment which is purpose-oriented on ensuring individual wealth stipulated by the profound individual work or bearing entrepreneurial risk challenges. Thus, it is extremely important to understand the basics of state-level fiscal and economic policies evaluation to perform in a modern competitive manner.

**Some approaches to estimating PFM reforms.** Implementing the PFM-reform requires quantifying the quality of public financial management systems of countries. A well-known mechanism of evaluation is public expenditure and financial accountability (PEFA) developed by a consortium of donors (31 index, which covers all stages of the budget cycle, budget completeness and transparency of fiscal credibility)<sup>2</sup>. There are other tools and indicators: budget practices and procedures of OECD Open Budget Index (OBI), recently revised by IMF fiscal transparency index<sup>3</sup>. The above-

<sup>1</sup> Scientific Background on the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2011 Empirical Macroeconomics compiled by the Economic Sciences Prize Committee of the Royal Swedish Academy of Sciences, Stockholm, 2011. 41 p.

<sup>2</sup> Public Expenditure and Financial Accountability. URL : <https://www.pefa.org/en/content/resources>.

<sup>3</sup> International Budget Partnership. URL : <http://www.internationalbudget.org/opening-budgets/open-budget-initiative/>.

mentioned mechanisms are used to assess the extent to PFM processes to specified parameters and are considered to be a «good practice», but sometimes they don't provide a realistic understanding of functioning of resource flows and operations, particularly due to the absence of reliable assessments of cash flows or purchase agreements. Estimates of «successful» reforming are focused on how the country is formally equivalent to the «international practice». In fact, the success of PFM reforms is extrapolating «good practice» to local conditions, so PFM institutions can more directly respond to meet specific special issues and problems in accordance with regional and political circumstances.

The introduction of international standards and efforts to ensure unified evaluation failed to prevent certain drawbacks. On the one hand, a significant number of OECD countries build the development strategy, taking into account the socio-economic conditions of operation that does not involve compliance with the above-mentioned standards of public financial management. On the other hand, the absence of impossibility of making progress in more flexible manners makes the developing countries follow the donors' standards without taking into account the effect which can be obtained as a result of implementing the integrated programs. Improvement of reforming public finances should take place in the direction of its adaptation to external and internal conditions of the functioning of certain countries. The optimization of the scheme involves transformation of methodology assessment and development of a new system of statistical indicators.

In determining the overall «success» performance, the following issues are out of sight:

1. Donors' recommendations do not take into consideration national peculiarities and their impact on a particular country (prospects of developing industries, types of production, employment, negative impact on the environment, etc.) that can

have negative consequences and hinder conducting effective social policy and prevent economic growth.

2. The above-mentioned approach does not involve using cluster analysis which enables to distinguish the countries of the same economic development and create specific areas of reform.

3. The common indicators of «success» enables to evaluate reforms in terms of sustainable development of the international economic system. Taking into account the cyclical nature of the world economy, it is necessary to extend the system of statistical indicators that will assess the possible economic risks.

In according to Grant Thornton and ICGFM survey, «... PFM has seen rapid innovation over the past decade. Once focused narrowly on budgeting, PFM's scope has expanded dramatically, drawing new ideas and reforms from all corners of economics, political science, accounting and public administration. Its evolution has long to run but has already resulted in the emergence of, what the IMF describes as, "ground-breaking" multidisciplinary public financial management practices»<sup>4</sup> [7].

**Innovations in Implementing Reforms.** The institutional changes are extremely important for accelerating reforms. They include introducing new rules, procedures, ethics norms, and so on. Many kinds of changes are needed in the legislative regulation processes of budgeting and financial management, modernization of internal and external audits, implementation of the newest information technology. Each process involves a wide range of government agencies, organizations and institutions that have their own unique characteristics, priorities and interests. For example, the entities financed from the budget, seek to increase public financial resource

<sup>4</sup> Grant Thornton Innovation in public financial management in an increasingly complex and uncertain global environment. Global financial management leaders survey 2015. P. 2. URL : <http://www.granthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/innovation-in-public-financial-management.pdf>.



allocations, but the Treasury has to control total expenditures. These contradictions make the management of public finances competitive, controversial and, sometimes, conflict.

Reforms in the finance sector have to be developed by «...change agents looking for what works, why and what next steps they should take... When combined, these dimensions yield a potentially new approach to implementing reform – PDIA» [8, p. 216–217; 9] (Problem-Driven Iterative Adaptation, PDIA). This kind of approach is an iterative process of passing the six stages «and the establishment of», providing a gradual definition and progressive realization of reforming.

Step 1. Participants identify issues that need to be solved. At this stage, the team usually works on institutional reforms. After identifying the problem, the team specifies changes by outlining measures that will provide solution of the problem, develop a strategy of change management.

Step 2. Once the problem is identified and the initial steps are agreed upon, the team keeps on working on developing primary measures to solve the problem. The purpose of this phase is to identify the measures and the tools that will proactively solve the problem through using available resources and initial conditions and data.

Step 3. Participants work individually and in teams to implement measures designed to step 2. Interaction of participants expands their responsibility for implementation of measures, both may have new opportunities to solve problems and ensure successful implementation of the reforms.

Step 4. At this stage summarizes progress made and measures taken. It is necessary to gather information on the efficacy of the measures, the presence of obstacles and develop a set of actions to overcome them. This experience could help to team with the idea of reform to adapt to the conditions and opportunities and facilitates tracking and establishing effective solution.

Step 5. The team discusses the lessons learned, achieving the functional changes

and progress of the reforms and ensures the maintenance and continuation of the reforms.

Step 6. At this stage, the team makes the review of changes and rationality of the measures to address the problem.

Mr. Matthew Andrews demonstrated that many of the reforms in developing countries can only succeed when the rules of the game change. The second aspect of the general context is the push for a problem-driven rather than a solution-driven approach to the reforms. Thus, the problem of recognition and the problem of identification form the basis of mobilizing actions and build support for a shared solution [8, p. 65–88].

If the problem is resolved, the team moves to a new strategy, extending the experience and problem solving tools produced by other government departments. If the problem persists, the team moves to a new iteration using new adaptation to lessons, understanding and creating potential projects, identifying new measures to solve the problem. The number of reform iterations depends on various factors, but they will grow while solving complex problems. The basic principles and methods of the PDIA approach are used to implement reforms in public institutions, including public finance management, fostering and identifying each problem, ensuring its solution, specifying the measures of improving functionality of the government, and ensuring the success of implementation of the reforms.

The usage of the PDIA approach helps:

- identifying and responding to factors that are not normally provided in the project and reduce effectiveness of the reforms;
- gradual and progressive emergence of new opportunities that lead to the final functional solutions and meet the realities of the reforming process;
- preservation and gradual expansion, legitimacy and support of the transformation process.

Reforms should focus rather on solving problems and being flexible about

solutions. There are practical implications of this approach. Projects, as the major vehicle for externally influenced changes, should describe the problems being addressed in detail and focus on metrics, reflecting solved issues. The difference between the latter is important, because they are alike the challenges that society marginalizes as though their importance is unclear. Many externally influenced reforms lack traction because they focus on such subjects. External agents can increase the influence of the interventions they support by helping to construct essential out of those outcomes. That could involve using data and other evidences to show the extent of the problem, constructing a narrative that cannot be ignored. Externally supported interventions should emerge from processes that build problems in this way, and project documents should routinely tell the story about how severe the problem is, why it matters, and who cares. Problems are often difficult to specify, having many facets and causes. This detail tends to be ignored by agents trying to fast track the search for solutions. Many external reform projects make this error, forcing project designers to specify solutions in constrained periods before projects even begin.

While different scholars identify various functions, needed to ensure the success of reforms, there is a common approach to grouping these functions, as following:

1. Substantive contributions includes the reform construction and discussions of problems, communication, identification of weaknesses within the reforming process, coming up with ideas for the reforms and alternative directions of the reforming.

2. Procedural contributions that aid working groups are addressing the tasks, authorizing mechanisms to allow experimentation, for instance, providing practical implementation, specifying the main contractor and diversification of responsibilities, creating motivation for the reforming, empowering other agents, providing financial support for the reforming (internal or external).

3. Maintenance contributions that improve relationships between agents (like team mechanisms that encourage discussions within the reforming development and implementation), shaping small groups and providing their cooperation, forming «common points» in their cooperation which includes elaboration of established mechanisms of interaction that could be adjusted.

It is possible to integrate various agencies for successful implementation of the reforms based on changes in three areas: processes, organization and performance management. Crucial role relies on developing clear, concise and logically relevant standard operating procedures (in the form of «step by step» instructions, diagrams, algorithms of execution of business operations and provision of public services). An important issue is arrangement of meetings of the agents' heads, responsible for implementing the reforms, specifying public services, which improvement will have a positive social impact. Also, an attention should be paid to legal regulation of agents' powers (ministries and authorities, external experts) within the process of implementing the reforms. Agents commonly have different views on what is and is not a problem warranting institutional changes. One should not assume that agents need to contribute to the reforming within the problems they face. Rather, external agents should provide opportunities to convene constituencies of potential reformers and discuss problems. The opportunity to reflect on problems in groups of agents who are not regularly engaged is crucial to constructing and deconstructing problems and provoking changes. It is critical to engage distributed agents early in the reform process as designers, not just as late-stage adopters.

Contextual weaknesses are seldom directly addressed by institutional reforms, even when identified as threats. Projects might note that incumbent political or government structures create political or capacity constraints to doing effective reforms, for instance, but rarely facilitate the deinstitutionalization of

such a framework. These structures frequently get in the way of introducing new mechanisms, however, and need to be addressed as part of the reforms. Specific solutions are identified before project activities even begin. This locks reformers into a change path. Flexibility is needed, however, to accommodate the exploration of problems and solutions in complex contexts. This flexibility requires active evaluation of the context: gathering experiences about constraints and opportunities, and accepting dynamic and strategic changes to project design and implementation modalities. This requires decreasing the current *ex ante* specification of projects and moving away from the current approach of having one or two big *ex post* evaluations designed to report on compliance issues.

During the crisis, the PFM reforms have been a priority, with close attention from the most senior officials of the government. However, there are doubts over how deep the support for the reforms reaches, because the absence of a functioning legislature means that both government and oppositional political parties cannot formally debate the merits of any political or institutional reforms. Paradoxical evidence suggests that the current reforms are well supported, but there is very little systematic evidence to underpin this. According to a well-known scientist Ph. Krause, in frameworks of PFM researching in West Bank and Gaza (WBG) [10], engagement of external actors was enormously important for the operation of politics and governments in WBG. The donor community was heavily involved in supporting the Palestinian Authority (PA), which received a significant amount of its revenue from external sources. Overall, it appeared that the donors made known their preferences about certain aspects of the PFM reform through various forms of institutionalized dialogue with the PA, but ultimately the government was relatively firmly in charge of decisions regarding what reforms to pick up and when. In general, the leverage of external actors to impose certain reform steps on the PA was probably much more

limited than numerical weight of external assistance would be suggested, because of the overwhelming importance of the general political situation, which tended to dictate the agenda of interactions between the PA and the international community much more than any technical concern arising from the PFM sphere.

Raising, allocating, and spending public resources are among the primary functions and policy instruments of any government. Over the past two decades, several broad trends have brought fiscal transparency into sharp focus:

- proliferation of good governance norms and standards that emphasize greater transparency in all government matters;
- introduction of modern public finance management systems and good practices in countries around the world;
- numerous transitions from closed, authoritarian political regimes to the ones characterized by policy contestation, separation of powers, political party competition, an organized civil society, an engaged citizenry, and an active media;
- greater decentralization and devolution of powers to subnational levels of government, including the power to raise, allocate, and spend public resources;
- growth in the number and operational capacity of independent civil society organizations (CSOs) seeking to be informed about and actively participate in government decision-making;
- dramatic growth, spread, and use of information and communication technologies around the world.

The global financial and economic crises that began in 2008 further revealed that the disclosure of government fiscal risks and positions was inadequate. This lack of transparency contributed to government fiscal crises in many countries (epitomized by Greece). The conditions that are likely to be associated with more open governments, specifically in the fiscal realm, can initially be classified into three broad categories: political, economic, and cultural or historical. In addition, the interactions among these conditions need to be analyzed in relation to country's



contexts, taking into account the actors involved, their potentially conflicting interests, power, and capabilities, the institutions that shape their behavior, and the incentives that such institutions create. This, in turn, will help to explain how and why specific outcomes occurred (or not).

Political conditions are often connected with transparency, including elections, political competition, government size, and decentralization. Electoral competition and political rights may create pressures to open-up government processes to public scrutiny. In addition, transitions from authoritarian regimes increase the possibilities for political contestation and so open the way to a range of domestic actors – opposing parties, politicians, CSOs, and independent media – who seek information about government fiscal activity to advance their own agendas. Decentralization may or may not increase transparency, depending on the interactions with other conditions such as regional inequalities in distribution of powers.

Economic conditions should be elucidated concerning the level of development (per capita income) and be strongly related to various efforts of transparency. Spread of education and expansion of middle classes may give rise to pressures for transparency, as better-off citizens come to desire greater quality and efficiency in the provision of public goods and gain the resources to express that interest politically. Some studies have found that trade openness, presumably operating through increased economic competition and growth, is associated positively with transparency to a significant degree. Conversely, countries with larger endowments of natural resources seem to be significantly less clarity imputed. Thus, the more volume they have the more it could harm or dampen pressures for transparency, as the government relies less on taxation to raise revenue. Greater levels of inequality can also contribute to lower levels of clarity through material and normative mechanisms.

Cultural and historical accounts of the quality of government institutions focus on the effects of religion, social values, legal traditions, and ethno-linguistic fractionalization. Such factors create more or less favorable normative resources that condition the extent to which transparency (and participation for that matter) is understood as a component of legitimate government. International forces can also contribute to greater fiscal transparency and participation. Supranational donors and powerful authorities push for formal fiscal transparency as part of the package of good governance measures – and often conditionality – linked to foreign aid.

The decision-making process for public finance management takes into consideration the following key factors: amount and structure of public debt (the debt level to GDP, the ratio between debt components); amount and structure of financing the budget deficit of the general government; fiscal and economic efficiency of the tax system, which is used in the country (including the tax administration system); amount and structure of public expenditures; the social burden level on public finance; rates of economic growth; the rate of inflation (deflation); unemployment rate; balance of payments of the country; interest rates on the credit market, and others. Ensuring the reforms have to be carried out by the reorganization of public finance, by reforming the tax system, reducing burden of administrative regulation of private business, creating new jobs, introducing measures of decreasing corruption, and so on.

Due to a great impact of the fiscal burden on the economy, the tax strategy should take into account real possibilities of the country's development and operation of its government.

Tax strategy should include effective means of responding to a variety of objective internal and external risks by choosing the most appropriate solutions that ensure the country's development and security. The movement of funds between budget units must be accompanied by creating the incentives to increase socially

and economically justified tax revenue of the budgets of all levels for the purpose of efficient performance of central government functions and strengthening of financial autonomy of communities. The key immediate tasks are: to ensure that the national tax system complies with the principle of fair taxation of business entities operating in different economic conditions, to reduce the tax burden on taxpayers and to encourage positive structural changes in the economy by using tax policy tools. A strategic approach to the processes of the tax system formation is a necessary tool for the government itself, because the government is «doomed» to play a very important role in organization of fiscal space.

Concepts of various forms of fiscal burden as part of a set of «national ideas» in the area of economic system management were developed and applied in many countries; especially, in times of great social and economic changes. Tax policy and administration of compulsory payments (improving tax collection, complying and broadening the tax base), as experts say, should be considered, in a broad sense, as a part of several dimensions in creating financial resources in the process of primary redistribution of the results of economic agents' activities and also of further movement of the respective resources that support operation of other segments of fiscal space.

Therefore, the most important position in the fiscal sphere belongs to the procedures for increasing public expenditures financed by debt accumulation, privatization receipts and development aid (funding) from donors, as well as sources of non-tax revenues. In case of lack of resources for meeting top-priority public needs (and even if they are available), private sector participation in the production of goods and services for public consumption may be an efficient alternative, certainly, if proper evaluation, structuring and regulation are ensured.

In our opinion, while analysing different welfare state models, it is important to assess the correlation of interests

of various social strata for adequate decision-making.

These issues are covered in the study of the Nobel Laureate E. Ostrom considering the huge number of possible situations in relation to common-pool resources (CPR) [11], as well as private and public goods and services. Evaluation of the degree of public interest unity regarding their use should be based on the criteria of accessibility, possible adversarial consumption, and characteristics of their exclusivity. It is essential that the quality of rules on access to CPR affects the efficiency of their use in the presence of an absolutely clear and commonly recognized collaboration result. Therefore, the community group having access to the CPR monitors its usage, and, simultaneously, informal norms of behaviour are being shaped making value control and the rest redundant.

National economies are shaped by the diversity of relations among economic entities depending on the historical, political and other factors which together may increase the advantages and compensate for the disadvantages of each of them. Such business environment characteristics as rationality degree of the combination of market and non-market interaction forms, and the ratio of self-organization to administrative organization in business relations, significantly influence the conjuncture assessments of specific economies. The most important among them are indicators of efficient allocation and use of economic resources which are specified on the basis of the marginal production capacity. This process conventionally involves government agencies, while their activities are implemented in the priority areas, wherein competitive strategic objectives are identified not only by economic efficiency estimations. Therefore, the problem of choosing efficient forms and methods of governmental intervention into the economy stands in the spotlight both for economic theory with its multiple streams of thought, and for practitioners involved in public administration and governance.

In general, the government through its institutions enforces certain political and socio-economic principles of society's functioning, and actively influences formation of macroeconomic proportions and dynamics of microeconomic processes. Thus, governmental intervention is conditioned by government's implementation of its established functions. Usually, it is aimed at the imperfections inherent in the essence of market mechanism which the latter fixes or is not able to fix on its own, or if the attempts to correct them are ineffective. In cases, when markets could not reach equilibrium or such a balance is inefficient, and in situations where individual market decisions affect other participants, regardless of whether this effect is positive or not, the government is responsible for elaborating and implementing appropriate compensatory tools.

Adequate governmental actions exist in the broad context of «essential» objectives of public and regulatory authorities: establishing equal conditions for all economic entities, efficient competition guarantees, and limiting the power of monopolies. The above-mentioned institutions also ensure the production of a sufficient quantity of goods and services to meet the society's common demands because the market mechanism itself could not adequately perform this task. We share the approaches of prominent economists grounded on the idea that markets are inefficient when it comes to creating mechanisms for production of public goods that bring benefits to many people simultaneously. Such scenarios are intrinsic, for example, concerning national security, road construction, healthcare, etc. That is, the society entrusts the government with tax collection and redistribution of incomes, whilst markets do not guarantee the achievement of social justice [12].

As evidenced by the modern international experience, governmental regulatory structures aspiring to boost economic growth entails the use of appropriate tools, with taxes being an important element. Their potential positive impact on national competitiveness and increased business activity of

economic entities is expressed in the growing share of industries producing goods for final consumption due to intensified investments and innovations, and increased demand for goods and services of domestic enterprises in the internal and foreign markets. Through taxation the government ensures budget revenue, and pursues protectionist policy or restricts it in relation to individual branches, regions and economic activities. It involves promoting sustainability and efficient operations of economic agents, implementing anti-inflation measures, counteracting monopolistic collusion, etc.

In fiscal management it is important to avoid redistributive effects that violate the criteria of economic neutrality. This entails ensuring rational structure of the fiscal burden on consumption, as well as on the main factors of production: labour and capital, in particular, among economic sectors. The stability of national economy's equilibrium is significantly affected by certain preconditions arising from the tax instruments having the above-mentioned redistribution leverage. This is essential, in particular, for balancing of supply and demand of investment resources when capital taxation can contribute, on the one hand, to increasing the return, and on the other hand, to reducing its supply, while creating the threats of assets growth inequality. Similarly, a specific configuration of tax burden on corporate profits, wages or interest can affect the performance of business entities and the income of workers, and may generate motivational conditions for certain behaviours of economic agents related to formation of savings as a significant source of share capital dynamics.

The dialectics of tax rules and regulations entails that, as one can see, they reduce the capacity of enterprises to purchase capital goods and labour, the latter being a special commodity. Therefore, corporate income taxation potentially reduces industrial consumption; whereas personal income taxes reduce the capacities of individual consumption. Contrariwise, taxes create a large resource basis for financial

mechanisms of governmental regulation over the rate of savings growth in the gross national income, contributing to economic development and the improvement of the economic structure of production and exchange. The society and its public authorities exercise taxation toolkits to achieve the desired level of proportionality in the economic structure of production while increasing its sustainability as related to structural variables by providing tax benefits to the sectors leading the technological progress, or promoting depressed regions, etc.

Among the most urgent and important tasks striving for the efficient solution both at the micro- and macroeconomic levels, one may distinguish the application of modern fiscal technologies in the process of GDP redistribution, when goal-setting for the elaboration and implementation of multiple private management mechanisms is integrated into the more general fiscal goals subsystem. Within the public financial system of the state, tax leverages make up gear units for different sets of economic, legal and institutional activities of the relevant institutions aimed at providing resources for implementation of the governmental tasks. Due to the significant impact of the fiscal burden on the economy, the tax strategy should include a set of key objectives and fundamental means for achieving them in the future according to the actual prospects for the development and functioning of the government, and should also include efficient responses to a variety of impartial internal and external risks in the context of selecting the most appropriate path to developing and ensuring the security of the country. Alternative taxation tactics provide the possibility to timely solve specific operational issues and specify the strategic objectives. Tactical measures are aimed at implementing specific tasks within the corresponding period of the country's economic development through timely adjustment of the approaches, tools, and methods for regulating taxation. Taxation tactics differs from taxation strategy because of its flexibility, efficiency and

provides immediate response to changes within and outside of the country. It should be emphasized that the restrictive conditions for achievement of fiscal targets are aligned with higher levels of neutrality of the tax system in relation to economic decisions of entities and consumers.

Ensuring the flexibility of public finances in response to changing conditions can provide the following ways: public policy aimed at cooperation of governmental bodies and businesses; introduction of measures aimed at deregulating, improving the investment and business environment; continuing privatization of public property; carrying out fiscal decentralization; developing external financial auditing of use of public funds.

Budget and civil service reforms are crucial to the success of the decentralization program. Periodic reviews of legal basis are essential to realign fiscal responsibilities with changing economic and political realities. Properly designed intergovernmental transfers can enhance competition for supply of public goods, fiscal harmonization, sub-national government accountability and regional equity. Enabling environments for decentralization, i.e. institutions of citizen participation and accountability, must be addressed to in any serious reform of fiscal systems [13].

Capital grants are a significant part of the expenditure-led decentralization initiatives. The experience says that these grants often generate underemployed capacities that create fiscal gaps between expenditure responsibilities and revenue assignments. That is why, it would be better to constraint the capital grants by encouraging the private sector by providing political and policy risk guaranties. Financial resources in the framework of the expenditure-led decentralization initiatives have been used mainly in public entities that have a very low efficiency level. Fiscal imbalances between expenditure responsibilities and revenue assignments arise due to an insufficient algorithm identifying expenditure the needs of local governments. A fiscal gap

arises because the expenditure needs of sub-national governments exceed their revenue means. Institutional capacity of sub-national governments in developing transitional economies is insufficient. There are some reasons for undercutting efforts to develop greater fiscal autonomy for subnational governments. Inter-governmental transfers in developing countries undermine fiscal discipline and accountability while building transfer dependencies that cause a slow economic strangulation of fiscally disadvantaged regions. Regional and local governments do not have proper financial resources to provide adequate levels of services to residents.

**Improving the quality of public administration.** The strategies and tactics of fiscal policy at the governmental level are circumstantiated with a view to minimizing the expenses of tax administration experienced by the government and taxpayers, and gives rise to given the need for efficient distribution of the tax burden between consumption, labour and capital. The issue of a greater importance is taking into account the experience of developed countries in the establishment of an independent bureau mobilizing the budget revenues reducing

tax expenditures and public spending. This refers to improving the legislative framework for the taxation of businesses, corporate and private properties, individual incomes and end consumers. For organizing and performing the tasks, it is necessary to create effective structure organizations differently depending on the budget levels — state, regional, and local ones (Figure 1).

Monitoring departments engaged in tax control essential to operation of these units is to specify such priorities as payment of taxes and prosecution. Payment of taxes of a taxpayer should be the key task of the Monitoring Department. If the taxpayer agrees to repay revealed by the examination of the unpaid tax liability, the law should provide an opportunity to apply the controlling unit to the payer various incentives. Such an incentive even may be full release of the responsibility. Prosecution should be the last event of impact, when any possibility of compromise have been exhausted.

Legal departments are units, which provide legal support of the administrative body, including representation of its interests before the courts on the legality of its decisions against taxpayers.

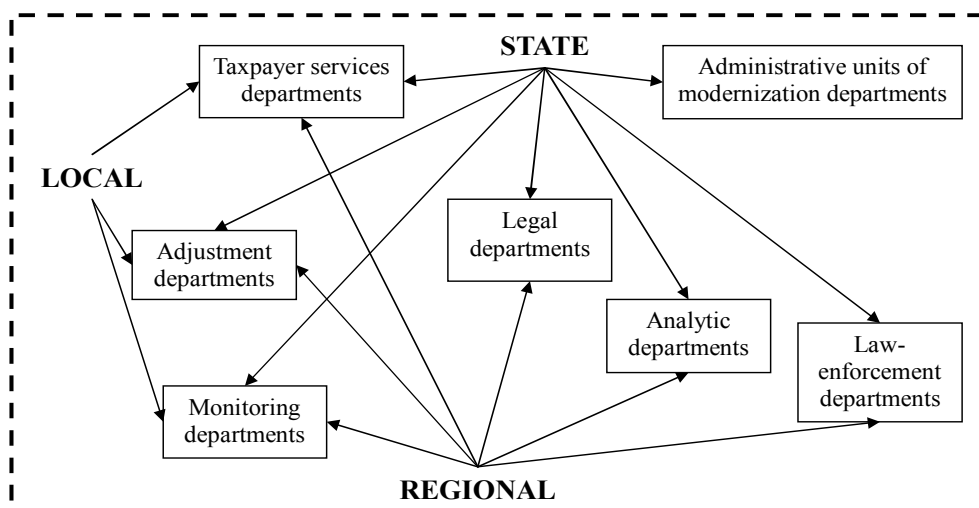


Figure 1. Tax Authority Structure



Taxpayer services departments. Activities of these units should be as close to the standards of service companies. It will strengthen understanding, and eventually confidence of taxpayers to the administrative authorities. Such departments, in particular, should be divided into subsections with acceptance and processing of tax returns and departments to provide information and advisory support taxpayers.

Adjustment departments are specialized units that ensure settlement of controversies between taxpayers and tax authority in the pre-trial order.

Analytic departments, carrying out analytical and methodological support for the administrative authorities.

Administrative units of modernization departments are the units that perform modernization functions.

Law-enforcement departments are the units focused on exposing the crimes in the area of taxation. Existence of such groups as part of the administrative body should be resolved according to the tasks that they face. If their main task is to secure the payment of taxes, such units should be a part of the administrative body. If enforcement is a major problem, it is feasible to create such units in the police.

The difficulties stipulated by the alteration of specific tax tools, in particular, in connection with anticyclical regulation are due to possible overlapping of tasks: under certain circumstances, some of them may temporarily gain higher importance and subjugate others, depending on the real economic and social situation, the level of respective awareness of the entities of governmental economic regulation, and the priorities' system established by governmental bodies for the specified period. Meanwhile, each task could facilitate or hinder the achievement of the others. Specific target instructions within the «tree of tasks» are usually subdivided in accordance with the established criteria into primary, secondary, tertiary ones, etc. Thus, during the crisis the priority would be a recovery, in a narrow specific sense outlining the ways, for example, toward the market structure upturn. In this case,

the other objectives are subjugated to the specified tasks within the business cycle intervals.

However, the multiplicity of the overall regulatory objectives does not entail multiplicity of approaches, particularly in taxation; therefore, it is at the level of financial resources' redistribution that one needs to ensure the unity of the overall tax reform model aimed at economic growth and counteraction towards the crisis appearance with a regard to time and space. Thus, anti-crisis change management in taxation should focus on:

- strengthening the principle of fairness by gradual reduction of fiscal pressure on the economic system through its more equal distribution over all subjects of taxation, primarily due to abolition of unjustified, inefficient tax benefits; and further reduction of the main national taxes rates and the social charges as well;

- maximal simplification of tax procedures through reduction of the total number of taxes and fees, unification of the existing mechanisms for their calculation and payment, and introduction of tax incentives aimed to boost innovation and capital assets accumulation.

Regarding the quality of tax rules, the important aspect mentioned above is that the provision of benefits to citizens by the government should be clearly differentiated depending on the level of responsibility of the central and local government units. So, one of the main tax system principles must be commitment to compliance and functional interaction of responsibility for providing citizens with the public goods envisaged by national constitutions, legislation and regulations with appropriate mechanisms to ensure adequate funding and efficient use of funds. Thus, the structural concept of the national fiscal space management should be oriented towards the provision of relevant resources to executive bodies for their performance of all the functions entrusted to them by law.

If we consider the relationship between the taxpayers and the state as a kind of contract wherein the rules are established by the legislation within the framework of certain institutional

matrixes, it is necessary to take into account the problems of bounded rationality and opportunistic behaviour. The combination of bounded rationality and opportunistic behaviour means that no economic interaction could occur without transaction costs. A higher degree of complexity and uncertainty of contracts is accompanied by objective recognition that the more elaborate contracts are, the more their parties should be prepared for unexpected changes. The transaction costs theory envisages the existence of the so-called government structures, with the purpose of applying adequate governmental mechanisms for eliminating conflicts and maximizing mutual benefits. Thus, the activities of social institutions should focus on the need to compensate for the negative effects of bounded rationality and opportunistic behaviour.

The effectiveness of the tax component of fiscal space largely depends on the balance between the basic principles of taxation. In particular, it is believed that individuals belonging to groups of low-income families are oriented upon equitable approach to mandatory payments based on the capability of their private or family assets. Whereas there is an inevitable redistribution effect, including capital flight to offshore zones in the form of tax evasion. This is rooted in the uneven ratio of the amounts paid as taxes and the services received. Thus, there is a danger of social conflict between population groups with different incomes, because the public sector cash flow in the form of transfers aimed to support low-income citizens or to finance public social services, such as education, health etc., being distributed equally between these service consumers, is perceived by taxpayers differently (meaning that benefits should only be paid for by those who experience it). Given the globalization of financial flows and international migration opportunities for individuals, the tax base is shifted (by «foot voting»), which leads to a non-equilibrium in public finances due to the crisis of national tax systems.

The need for ensuring the implementation of the public functions gave birth to a new concept of welfare-state taxation: socially oriented taxation, or tax policy socialization. The latter is defined in the form of values being transformed into the principles of fair taxation implemented in the commitment to: creating equal opportunities for all members of the society via the social support system; transition from the political and legal equality to social equality; ensuring an acceptable living standard for disadvantaged population groups and individual citizens; and increasing welfare. The political process' framework inherent in a particular country affects the improvement of the tax system due to balancing the ability to pay and the amount of benefits received from the public sector. Accordingly, unstable social compromises lead to instability of tax systems regardless of the national economic development level.

W. Niskanen assumes that in the absence of marginal benevolence, «any system of taxes and transfers is a negative-sum game, a form of legalized theft, reducing the total income of the community. The conventional focus on the distributional outcomes of this game, thus, is not a sufficient basis for determining whether these outcomes are the results of a fair game» [14]. In the context of the functioning of mechanisms of regulators and entities being participants of market games, it is, in our view, appropriate to repeat Niskanen's reference to F. Knight: «All problems of social ethics are like those of play in that they have the two components of obeying the rules and improving the rules, in the interests of a better "game". ...As a matter of course, every party in the game must "play his own hand" to the best of his ability; otherwise there is no game. ...Further, rigorous equality in the distribution of the results is self-contradictory. ...The ethical ideal is a "fair" and an interesting game» [15]. Thus, consensus contains elements of uncertainty associated with the fact that the people constituting the decision-making majority opt for certain tax and transfer rules with-

out fully assessing the correlation of their interests with the effects of these rules.

The difference in taxes per person directly corresponds to the cost of living in any country (excluding personal expenses), so it is important to respect the rights of citizens when increasing the intensity of labour migration in accordance with the individual liberty principle. In fact, modern welfare states maintain a high level of social security, despite its considerable cost, in pursuance of real political and economic interests. However, we should bear in mind that these rules are approved of mainly due to interests prevailing in the majority of voters, which significantly affects the level of tax burden as compared to the decision-making by «broad consensus on a constitutional platform» [14]. Thus, the extent of fiscal powers of the government and local authorities as to increasing public debt or raising taxes will be governed by the criterion of constitutional majority voting in order to ensure the compliance of such decision with democratic norms.

The strategic objectives of the tax law are achieved in close correlation with the norms of all activity areas within the fiscal space, especially budgeting. Their regulation requires further unification of structural, linguistic, requisite, and procedural rules in order to avoid violations of taxpayers' constitutional rights. Therefore, the strategic concept of an efficient tax system should provide for, if not support, then at least a positive attitude of most people and the civil society towards the fiscal policy of the state, as government institutions' enforcement alone is not sufficient to implement large-scale programs that in the long run are aimed at ensuring state support to the competitive economic entities; and thus serve as a benchmark for making prospective economic decisions.

### Conclusions

External organizations typically are looking for and concentrate on solutions of PFM perspectives. Changes agents have to focus reforms on problems, not

solutions, facilitate the deconstruction of problems for deep reflection, too. Projects should not detail the solutions to main problems or insist on the adoption of visible elements of best practice solutions as measurable objectives. Deconstructing problems is vital, however, because the process of identifying causes, effects and facilitates reflections, provokes questions about extant structures, and guides reformers toward appropriate entry points for change. This process takes time and often requires active intervention (which flushes out contextual weaknesses that are not obvious *ex ante*). So, it is important to facilitate the construction of problems from issues and pay attention to deinstitutionalization requirements. Externally influenced institutional reforms frequently impose linear change processes on reform contexts. It is the reason they have to establish flexible pathways to exploring problems and finding solutions. For local agents it is necessary to provide opportunities to reflect on problems.

The successful reforms have the following in common: responding to context, especially the underlying rules of the game; focusing on the problem to be solved, a sense of whichever country shares; having multi-agent leadership, not merely lonely champions. Sources of influence on PFM reform are: public sector management; political governance and leadership; public expectations and accountability; international engagement and modalities of external support.

Overall, four main causal triggers stand out as contributing to fiscal transparency within countries. First, political transitions that not only bring an end to autocratic rule, but also bring about political contestation and alternation, giving voice to opposition parties and greater powers to oversight bodies such as legislatures. Second, fiscal and economic crises that force governments to tighten controls over the public purse and put in place mechanisms and incentives for fiscal discipline and independent scrutiny. Third, widely publicized cases of corruption that lead reform-oriented

actors to react strongly and compel governments to provide better public access to fiscal information. And the last, but not the least, external influences that promote global norms to empower domestic reformers and civil society actors.

The most important issues in providing solutions to complex problems in the reforms are: improvement of legislation concerning regulation of public services' order; introduction of more efficient mechanisms of budget control; improving budgetary procedures; introduction of medium-term budget planning; improvement of fiscal rules; ensuring transparency of fiscal operations improvement of budget legislation; optimization of public debt, and so on. Budget documents are usually lengthy and contain technical information. Thus, governments should also publish a citizens budget – a simplified summary of each of key budget documents issued in languages and through media that are widely accessible to the public. Best practice requires that a body independent of the executive issue an annual audit report covering all activities undertaken by the executive.

Different institutions (agents) cooperate for successful implementation of reforms based on these approaches:

1. Leveraging – involves politically skilled agents defining a project and then gaining internal support for and external acceptance of it. There are the key actors in this model who initiate the change and inspire others to support and participate in the change.

2. Accumulating – does not have a key role player but involves a long and probabilistic process whereby new designs emerge and are implemented and diffused through the haphazard interaction of multiple actors.

3. Convening – entails the creation of inter-organizational arrangements that bring different actors, their resources, and functional strengths together to «jumpstart a process of change». This is not focused on specific projects and solutions but on complex problems that

defy definition and solution by any individual players.

The local adaptive capacity is extremely important that foster the public finance management reform and should take into account: the volume of resources involved to implement transformational changes; its distribution and directions' use; mechanisms to attract resources from the domestic financial market; optimization of public spending; attraction possibility of financial assistance from international financial institutions, governments and financial markets; ensuring efficient use of mobilized resources, the factors increasing financial resources through implementation of the tax reforms measures.

Thus, taxation has a specific impact on economic and social objectives of promoting macroeconomic stability, efficient allocation of resources, and equity within an economy. Public expenditure, including the decision not to spend, have similar (or parallel) to taxation effects. As usual, all kinds of fiscal impact consist of:

- more equitable access to education and health care contributes to human capital accumulation, is a key factor for growth;

- lowering the tax wedge and improving the design of labour taxes and social benefits can strengthen work incentives and induce a positive labour supply response; shifting tax burden from labour to consumption reduce unemployment and provides more fair income distribution;

- taxation of capital income influences private savings and investment decisions; well-targeted tax incentives can stimulate private investment and enhance productivity through research and development (R&D);

- efficient public investment, especially in infrastructure, can raise the economic productive capacity; capital expenditure cut for transport infrastructure leads to the lagging in development.

At the individual level, capital income taxes reduce the return on savings. At the corporate level, profit taxes reduce the rate of return on investment projects.

If growth of friendly reforms requires fiscal space, revenue measures should focus on broadening the tax base and minimizing distortions; and expenditure measures should aim at rationalizing spending and improving efficiency. Both tax and spending policies can help raise the human capital stock, given the presence of positive externalities and credit market imperfections.

In a short run, spending multipliers are relatively higher than taxes, so discretionary spending is more effective for urgent solutions. In medium-run horizon tax multiplier is a bit higher, affecting behavioral biases, so tax measures are more effective and visible in a long run. Fiscal policy affects decision-making in consumption and savings balancing together with capital allocation: excessive tax burden demotivates investors and households from spending, while public expenditure shortage poses barriers for

fair redistribution and infrastructure development.

The tax administration tasks in developing countries:

- fiscal function — assurance of the governmental and local budgets by the tax funds and dues — on time and in full;
- service function — providing the taxpayers with quality services on their tax calculation, tax charge, declaration and payment of taxes;
- methodological function — monitoring conditions of tax relations and creation the organizational, regulatory and other proposals aimed at improving the efficiency of the administrative authority duties;
- modernization function — creation and realization (within the competence) comprehensive proposals for conceptual change in tax administration, development of a high level of tax culture in officials and taxpayers, which involves voluntary taxes mostly.

The latter function should be treated as an essential feature of administrative authorities in developing countries because these governments are still on their vital path to elaborate a full-scope tax culture.

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